

Message Text

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ORIGIN SS-25

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APPROVED BY THE SECRETARY

EB/ORF/FSE -MR. BENNSKY

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FM SECSTATE WASHDC

TO AMEMBASSY JIDDA IMMEDIATE

S E C R E T STATE 167505

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJ: SAUDI GOVERNMENT CONSIDERATION OF CEILING ON OIL

PRODUCTION

REF: JIDDA 3444

1. DURING AMBASSADOR'S MEETING WITH PRINCE FAHD TO PRESENT
TEXT OF U.S. POSITION ON RESERVE INVESTMENTS IN ARAB
COUNTRIES, YOU SHOULD ALSO PRESENT FOLLOWING MESSAGE FROM
SECRETARY. QUOTE: YOUR ROYAL HIGHNESS:

I AM SURE YOUR ROYAL HIGHNESS IS AWARE OF THE COMMON
INTERESTS WHICH THE U.S. SHARES WITH SAUDI ARABIA AND WITH
OTHER OIL PRODUCING COUNTRIES IN ENSURING A RELIABLE FLOW
OF OIL TO CONSUMER NATIONS. AT THE SAME TIME, WE RECOGNIZE
THE DESIRES OF SAUDI ARABIA AND OTHER OIL EXPORTING
COUNTRIES TO USE THE REVENUES OBTAINED FROM OIL WISELY AND
PRODUCTIVELY TO HELP THEIR DEVELOPMENT AND BENEFIT THEIR

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ECONOMIES. I UNDERSTAND THAT YOUR GOVERNMENT IS CURRENTLY
WEIGHING THE ECONOMIC CONSIDERATIONS RELATED TO FUTURE
LEVELS OF CRUDE OIL PRODUCTION. I WOULD LIKE TO SHARE WITH

YOU MY THOUGHTS ON THIS COMPLEX QUESTION.

THE FREE WORLD'S OIL CONSUMPTION IS CURRENTLY ABOUT 46 MILLION BARRELS PER DAY AND IS GROWING BY AT LEAST 3 MILLION BARRELS PER DAY EVERY YEAR. SAUDI ARABIA, AS THE WORLD'S LARGEST EXPORTER AND NOW THE SECOND LARGEST PRODUCER, HAS A KEY ROLE IN HELPING MEET THIS DEMAND. IN THIS CONNECTION I BELIEVE IT IS IMPORTANT THAT THE MUTUALITY OF INTERESTS BETWEEN SAUDI ARABIA, THE U.S. AND THE FREE WORLD BE MAINTAINED.

I WANT TO ASSURE YOUR ROYAL HIGHNESS THAT THE UNITED STATES UNDERSTANDS THE INTRICATE PROBLEMS WHICH SAUDI ARABIA IS NOW FACING WITH THE EFFECTIVE UTILIZATION OF ITS MOUNTING FOREIGN EXCHANGE REVENUES DERIVED FROM OIL. THE UNITED STATES IS ALREADY AWARE OF SAUDI ARABIA'S DESIRE TO MOVE AHEAD WITH ITS INDUSTRIAL DEVELOPMENT; WE BELIEVE AMERICAN COMPANIES CAN PLAY A USEFUL ROLE ESPECIALLY IN JOINT VENTURES INCLUDING ENERGY INTENSIVE INDUSTRIES OR WHICH MAKE USE OF GAS FOR PETROCHEMICALS. WE ARE ALSO EXAMINING WAYS IN WHICH WE MIGHT OFFER SUGGESTIONS TO YOUR GOVERNMENT ON INVESTMENT OUTSIDE THE KINGDOM, AND WE ARE PREPARED TO WORK WITH YOU ON THESE EXPEDITIOUSLY AND EFFECTIVELY. WE LOOK FORWARD TO THE OPPORTUNITY FOR DISCUSSIONS WITH YOUR MINISTER OF STATE AND PRESIDENT OF THE CENTRAL PLANNING ORGANIZATION, MR. HISHAM NAZIR, DURING HIS FORTHCOMING VISIT TO THIS COUNTRY. AS YOUR HIGHNESS MAY KNOW, THE SECRETARY OF THE TREASURY, MR. SHULTZ, HAS INVITED MR. NAZIR TO COME TO WASHINGTON FOR TALKS WHILE HE IS IN THE UNITED STATES.

OUR THINKING ALSO PARALLELS YOUR OWN AS TO WAYS IN WHICH SAUDI ARABIA CAN PLAY AN IMPORTANT AND CONSTRUCTIVE ROLE IN INTERNATIONAL MONETARY AFFAIRS, AND WE ARE ALSO PREPARED TO EXPLORE THIS MATTER INTENSIVELY AND IN DEPTH. IN THE PROPOSAL WE RECENTLY PRESENTED TO THE COMMITTEE OF 20 DEPUTIES, OUR OBJECTIVE WAS TO FIND WAYS TO ASSURE THAT THE WORKINGS OF THE INTERNATIONAL MONETARY SYSTEM

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NOT IMPEDE THE ABILITY OF THE SURPLUS OIL PRODUCING COUNTRIES TO TAKE FULL ADVANTAGE OF INVESTMENT OPPORTUNITIES IN A WAY WHICH WILL PERMIT THEM TO GAIN MAXIMUM BENEFIT FROM THEIR FUTURE RETURNS. WE TRUST THAT SAUDI ARABIA AND OTHER OIL PRODUCING STATES WILL GIVE THIS PROPOSAL SERIOUS STUDY AND FIND IT TO THEIR ADVANTAGE. OUR TREASURY DEPARTMENT HAS DISCUSSED THIS PROPOSAL IN DETAIL WITH MR. AHMAD ZAKI SAAD AND WE BELIEVE THIS IS A USEFUL CHANNEL FOR FURTHER DISCUSSION OF THIS IMPORTANT ISSUE. AS WE INDICATED TO HIM, WE DO NOT WISH TO PRESS THIS DISCUSSION IN THE MORE GENERAL MEETINGS WITHOUT

SAUDI ARABIA'S UNDERSTANDING.

MORE GENERALLY AND APART FROM THIS ASPECT, I BELIEVE IT IS ESSENTIAL FOR US TO HAVE CLOSE CONSULTATIONS IN THE WEEKS AHEAD AS SAUDI ARABIA EVOLVES A POLICY RELATING TO FUTURE OIL PRODUCTION WHICH WILL MEET SAUDI OBJECTIVES AND YET AT THE SAME TIME GIVE FULL WEIGHT TO

THE NEEDS OF CONSUMING COUNTRIES. WE STRONGLY BELIEVE THAT CONSUMER AND PRODUCER COUNTRIES HAVE MUCH TO GAIN BY CONTINUING MUTUAL COOPERATION.

FINALLY, YOUR HIGHNESS, I WOULD LIKE TO CLOSE ON A PERSONAL NOTE, IN THE SPIRIT OF THE LONG FRIENDSHIP AND WARM RELATIONSHIP BETWEEN US. AS WE BOTH KNOW, THERE HAVE ALWAYS BEEN SOME WHO WOULD LIKE TO CREATE DIFFICULTIES IN U.S.-SAUDI RELATIONS AS A RESULT OF THE ARAB-ISRAELI DISPUTE. I REALIZE HOW FRUSTRATING THIS UNRESOLVED PROBLEM IS FOR YOU, AS IT IS FOR US. I HAVE FULL CONFIDENCE, HOWEVER, THAT YOUR HIGHNESS HAS KNOWN ME LONG ENOUGH TO BELIEVE THAT, IF THERE IS ANYTHING I CAN DO TO BRING ABOUT CHANGES IN THE SITUATION WHICH WILL HELP RESOLVE THE PROBLEMS FACING US BOTH TO OUR MUTUAL ADVANTAGE, I WILL SPARE NO EFFORTS TO DO SO.

I WILL BE AT THE UN GENERAL ASSEMBLY THIS FALL, AND I AM PREPARED TO GO INTO THESE MATTERS WITH YOU, SHOULD YOU BE IN THIS COUNTRY, OR WITH ANY OTHER MINISTERS YOU DEEM APPROPRIATE AT THAT TIME. SINCERELY, WILLIAM P. ROGERS.
ENDQUOTE.

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2. IN MAKING PRESENTATION TO PRINCE FAHD, YOU SHOULD NOTE THAT WHILE INVESTMENT FUND WAS FIRST MENTIONED BY SECRETARY SHULTZ LAST SEPTEMBER IN HIS STATEMENT TO ANNUAL FUND MEETING, THIS IS FIRST OPPORTUNITY WE HAVE HAD TO PRESENT PROPOSAL IN ANY DETAIL. IN TALKING TO FAHD AND OTHER SAUDI OFFICIALS, YOU SHOULD BE AWARE THAT IN ESSENCE, THE PROPOSAL IS DESIGNED TO PRESERVE FREEDOM OF ACTION OF OIL PRODUCING STATES IN MAKING INVESTMENTS WITHOUT RUNNING AFOUL OF POSSIBLE RULES IN A NEW MONETARY SYSTEM THAT MAY LIMIT AMOUNT OF RESERVES A COUNTRY MAY ACCUMULATE. IN THIS SENSE, IT PROVIDES SPECIAL PRIVILEGES FOR THOSE COUNTRIES IN RECOGNITION OF THEIR SPECIAL NEEDS AND REQUIREMENTS RATHER THAN IMPOSING SPECIAL OBLIGATIONS. WHILE WE RECOGNIZE SUSPICIONS OF OIL PRODUCING STATES, THE PROPOSAL GIVES NO BASIS FOR THOSE STATES TO REDUCE OIL PRODUCTION. YOU SHOULD ALSO MENTION THAT THE COMMITTEE OF 20 DEPUTIES ARE SCHEDULED TO MEET AGAIN IN PARIS IN SEPTEMBER AND THAT TREASURY UNDERSECRETARY VOLCKER WILL EXPECT TO SEE AHMAD ZAKI SAAD THERE OR IN

WASHINGTON.

3. YOU SHOULD ALSO INDICATE THAT WE EXPECT THERE WILL BE OPPORTUNITIES FOR FURTHER HIGH-LEVEL DISCUSSIONS WITH

SAUDIS IN WEEKS AHEAD DURING WHICH WE HOPE WE MAY BE ABLE TO DISCUSS SPECIFIC QUESTIONS OF ENHANCING SAUDI INVESTMENT PLANS, INCLUDING TAX ISSUES. IN INDICATING TO PRINCE FAHD NUMBER OF OCCASIONS WE FORESEE WHEN THESE SUBJECTS CAN BE DISCUSSED, YOU SHOULD EMPHASIZE WE BELIEVE IT FAR BETTER TO PROCEED WITH NEGOTIATIONS WITHOUT BURDEN OF PRODUCTION LIMITATIONS WHICH LIKELY BE MISINTERPRETED AND COULD HAMPER OUR MUTUAL OBJECTIVES.
ROGERS

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